

OPEGA Recommendation for Project Direction

Maine Economic Improvement Fund

Background

The Government Oversight Committee (GOC) first considered a review of the Maine Economic Improvement Fund (MEIF) at its February 22, 2013 meeting and moved the topic to OPEGA's work plan at its April 26, 2013 meeting.

OPEGA's preliminary research for this review has focused on gaining a general understanding of the legislative intent for MEIF, how MEIF is administered and used by the University of Maine System, and what legislative questions or concerns exist about MEIF. To date, our work has included reviewing:

- legislative history of MEIF (10 MRSA Chapter 107-C);
- MEIF Annual Reports produced by the University of Maine System for 2007 – 2012; and
- minutes of GOC meetings where MEIF was discussed.

We have also interviewed select staff at University of Maine System (UMS), University of Maine at Orono (UMO) and University of Southern Maine (USM) to learn how MEIF is administered and data for the Annual Reports are gathered.

We have requested, but not yet had an opportunity to:

- conduct a more in-depth interview with certain staff at UMO; and
- review the report that was expected from the recent Task Force required by PL 2011 Chapter 698.

The Task Force's review was specified to include an assessment of the extent to which past distributions have leveraged external funds and enhanced Maine's economic or commercial capacity, an assessment of the competitive criteria used, and recommendations for any changes necessary to enhance investment in targeted areas and provide basic investment necessary to obtain matching funds and competitive grants.

Summary of Preliminary Research and Analysis

Information from some of OPEGA's preliminary research was provided to the GOC during its consideration of whether to add this project to our Work Plan. See the attached MEIF Summary dated March 8, 2013.

In that Summary, OPEGA noted that MEIF Annual Reports do not include reporting on annual measurable goals and objectives as required by statute. Additionally, we have observed:

- apparent differences in how university campuses allocate MEIF to particular target areas and specific projects;
- apparent differences in how university campuses account for MEIF expenditures; and
- Annual Reports do not specify what target areas the smaller campuses are directing MEIF to.

We also have further questions about some of the financial data presented in the Annual Reports.

Table 1 shows total actual MEIF expenditures for UMO and USM by target area and year as taken from the MEIF Annual Reports produced by UMS. Table 2 shows cumulative expenditure totals for the six year period by target area and percent of total expenditures in each target area. The figures in these tables do not include MEIF expenditures for Small Campus Initiatives since the Annual Reports do not break down small campus expenditures by target area.

Table 1. Actual MEIF Expenditures By Target Area and Fiscal Year for UMO and USM combined (excluding small campus initiatives)						
Target Area	2007	2008	2009	2010	2011	2012
Aquaculture and Marine Sciences	\$2,111,639	\$2,563,845	\$2,465,552	\$2,020,492	\$1,601,435	\$1,929,331
Biotechnology	\$2,504,271	\$2,837,923	\$2,959,141	\$2,172,228	\$2,818,617	\$2,505,364
Composites and Advanced Materials Technologies	\$792,134	\$1,036,433	\$1,349,359	\$1,746,889	\$2,149,228	\$2,413,679
Environmental Technologies	\$1,390,698	\$1,554,413	\$1,460,598	\$1,261,382	\$1,229,832	\$1,221,854
Information Technologies	\$3,015,078	\$2,954,767	\$2,645,750	\$2,517,029	\$2,273,873	\$2,288,783
Advanced Technologies for Forestry and Agriculture	\$2,633,015	\$2,395,228	\$2,486,024	\$2,434,075	\$2,301,709	\$2,392,268
Precision Manufacturing	\$1,582,260	\$1,495,907	\$1,897,805	\$1,971,098	\$1,935,287	\$1,929,564
Total	\$14,029,095	\$14,838,516	\$15,264,229	\$14,123,193	\$14,309,981	\$14,680,843

Table 2. Total Actual MEIF Expenditures By Target Area 2007-2012 for UMO and USM combined (excluding small campus initiatives)		
Target Area	Total Expenditures	% of Total Expenditures
Aquaculture and Marine Sciences	\$12,692,294	14.5%
Biotechnology	\$15,797,544	18.1%
Composites and Advanced Materials Technologies	\$9,487,722	10.9%
Environmental Technologies	\$8,118,777	9.3%
Information Technologies	\$15,695,280	18.0%
Advanced Technologies for Forestry and Agriculture	\$14,642,319	16.8%
Precision Manufacturing	\$10,811,921	12.4%
Total	\$87,245,857	100.0%

Recommended Scope Questions:

If the GOC desires to continue with a review of MEIF, OPEGA recommends a focus on the following questions:

1. What process is used to allocate MEIF to the target areas established in statute and to specific projects within those target areas?
2. What is MEIF being spent on and are the expenses consistent with statutory intent?
3. What metrics does UMS use to measure accomplishments attributable to MEIF? Are these results being accurately tracked and reported? Are there other metrics that might be used to measure success?

Maine Economic Improvement Fund
OPEGA Summary for the Government Oversight Committee
March 8, 2013

Legislative History

The Legislature created the Maine Economic Improvement Fund in 1997 (LD 1854 - An Act to Establish the Maine Economic Investment Fund enacted as PL 1997 Chapter 556) to provide funding for applied research and development by the University of Maine System (UMS), its member institutions and employees and students in five target areas:

- Aquaculture and Marine Science & Technology
- Biotechnology
- Composite Materials Technology
- Environmental Sciences & Technology
- Information Sciences & Technology

The MEIF's purpose is to act with private businesses, the federal government and public and private research institutions to invest in applied research and development in the target areas within UMS and support the development of private enterprise based on that research and development. The bill anticipates UMS receiving matching funds from public and private sources to augment MEIF.

UMS' Board of Trustees is responsible for administering the MEIF and is required to submit an annual report to the Governor and Legislature by January 1. Initially the statute required that the report address:

- operations and accomplishments of the fund during the fiscal year; and
- provide a statement of fund assets and liabilities at the end of the most recent fiscal year.

UMS was expected (as per OFPR Fiscal Note) to use existing resources to absorb additional costs associated with administering the MEIF, as would the Maine Science & Technology Foundation and State Departments staffing or serving on the MEIF Task Force which was created at the same time.

The Maine Economic Improvement Task Force was charged with reviewing and summarizing current policies and programs in Maine that support research and development, summarizing what other states do and developing a plan with a report due January 1, 1998. Initially the Task Force had 8 members; 2 from UMS, 1 from Maine Technical College System, 1 from Maine Science & Technology Foundation, 2 from the Department of Economic and Community Development, Department of Marine Resources or State Planning Office appointed by the Governor, 1 appointed by the President of the Senate and 1 by the Speaker of the House. The bill as amended added a ninth member from Maine Maritime Academy.

1997 Public Comment and Legislative Debate

Proponents of the MEIF bill in 1997 cited the following in support of the fund:

- Maine being 50th in R&D investments;
- the loss of young people from state or "brain drain";
- the fund would stimulate science and technology driven jobs and economic growth;
- this investment of public dollars would leverage many more private dollars coming into the state,
- a national study stating that publically financed research plays a big role in breakthrough industrial innovations and advancements;
- the fund would increase Maine's appeal to business and industry; and
- research in the five target areas can benefit many Maine industries.

Opponents were concerned about reductions to the State's Rainy Day and Retirement Allowance Fund and wanted to see the private sector fund research and development possibly through some type of tax credit instead. There was also concern expressed about the limited time spent in committee working the bill. The bill was submitted after deadline, coming before the BRED Committee in May.

Materials in the Committee's written record from Law and Legislative Research Library include a report titled *University of Maine System Research Creates Jobs*. This report describes initiatives already on-going at University of Maine Orono (UMO) and University of Southern Maine (USM) in the five target areas. The report does not mention initiatives by other UMS member institutions or Maine Maritime Academy. Specific initiatives described included:

- Wood Composite Engineering - University of Maine efforts coordinated with Eastern Maine Technical College
- Marine Science & Aquaculture – University of Maine's new School of Marine Science
- Environmental Technologies – University of Maine research
- Biotechnology – University of Maine basic research in poultry science since mid-80's and USM strengthening its molecular biology teaching and research capacity through joint effort with biomedical and biotechnology communities in the Portland area
- Information Technology – University of Maine National Center for Geographic Information & Analysis

1999 Amendments to MEIF

In 1999 MEIF's target areas were modified (PL 1999 Chapter 401) when the Legislature created the Maine Technology Institute (5 MRSA chapter 407) as part of the budget bill. MEIF's target areas were deleted in the statute and replaced with the following "targeted technologies" as identified in 5 MRSA chapter 407:

- biotechnology
- aquaculture and marine technology
- composite materials technology
- environmental technology
- advanced technologies for forestry and agriculture
- information technology; and
- precision manufacturing technology

The Legislature also amended MEIF's statute regarding what must be included in the annual report submitted to the Governor and Legislature by the University of Maine System's Board of Trustees eliminating "accomplishments" and adding a section on goals and objectives. The revised report was required to include:

- the operations of the fund during the fiscal year;
- the assets and liabilities of the fund at the end of its most recent fiscal year; and
- the annual measurable goals and objectives of the fund, as established by the board, and an assessment of the achievement of those goals and objectives. The goals and objectives must include, but may not be limited to, education, research and development.

2012 Amendments

In 2012, the Legislature amended the MEIF Statute setting minimum percentages (2.5% beginning July 1, 2013, 3% beginning July 1, 2015) for annual disbursements from the fund to the smaller universities within the University of Maine System – Augusta, Farmington, Fort Kent, Machias and Presque Isle. (LD 1885 - An Act to Amend the Laws Pertaining to the Maine Economic Investment Fund enacted as PL 2011 Chapter 698.) MEIF annual report requirements were also amended to include a summary of the research and development projects funded with the minimum percentage distributions made to the smaller universities and any external funding sources leveraged with those awards.

In addition, the bill established a new six member Task Force charged with reviewing the MEIF. The review will include an assessment of the extent to which past distributions have leveraged external funds and enhanced Maine's economic or commercial capacity, an assessment of the competitive criteria used and recommend any changes necessary to enhance investment in targeted areas and provide basic investment necessary to obtain matching funds and competitive grants. It was due by January 8, 2013, but the Legislative Council did not appoint Task Force members until December. UMS staff estimates completing the report in March 2013.

2012 Public Comment and Legislative Debate

Debate on LD 1885 focused on how much of the MEIF to reserve, and whether or not to phase in over time, the set aside for the smaller universities.

At the public hearing before the LCRED Committee no one spoke against the bill. Proponents noted:

- MEIF represents an annual investment by the Legislature in applied research through the University of Maine System of \$14.7 million
- The fund must be spent in 7 targeted areas and the University uses it to leverage federal and private funds that play an important economic development role in Maine.
- Between 1997 and 2008 the University of Maine System granted all MEIF funds to UMO and USM, yet there are 7 campuses in the U Maine System.
- In FY2009 the University created the Small Campus Initiative making \$100,000 available to the smaller campuses on a competitive basis.
- An additional \$100,000 was made available in 2009 for projects at U Maine Machias and U Maine Fort Kent.
- The Legislature rather than the leadership of the University of Maine System should be responsible for dictating whether or not MEIF funds are available to small campuses.
- MEIF funds can help the smaller campuses become more attractive to students and faculty.
- Locating applied research near businesses and entrepreneurs in rural areas make it more likely technology transfer, and job creation, will occur.
- More dollars at the smaller campuses will encourage collaboration among U Maine System campuses.
- This will help support marine science and aquaculture research and help Maine's coastal economy.
- MEIF funds used to leverage other grants have an average return of 4:1.

U Maine System supported the bill with a phased in approach. UMS representatives also stated that the program works best when given maximum flexibility and that UMS would prefer to be allowed to make award decisions based on its own competitive processes.

Legislative debate included the issues noted above. Proponents believed the original intent was for MEIF to go to U Maine System's seven campuses, not just two, and cited fairness as an issue. Proponents also mentioned instances of research important to Maine's economy being conducted at the small campuses.

Some legislators were not in favor of setting money aside immediately because of the impact of reducing funding on projects needing time to wrap up or transition. A desire not to micromanage the universities was expressed as was a preference for concentrating efforts where there is capacity, ongoing research work and infrastructure in place. Another point made was that the 3% set aside more than doubles what the smaller campuses are currently getting.

MEIF Annual Reports for 2004-2009 and 2011

OPEGA reviewed the annual MEIF reports available for 2004 – 2009 and the report for 2011. Those reports consistently include the amount of money from private and federal grants and contracts leveraged by MEIF at UMaine and USM; the number of full-time equivalent positions supported through MEIF and leveraged funds; and an accounting of the sources and uses of funds, including a summary of total dollars spent in each targeted area by university. Some annual reports also described the patents applied for and awarded.

Annual reports for 2004 – 2009 include narratives highlighting activities at UMaine and USM by targeted area. Those narratives include descriptions of projects, faculty and students involved, any partnerships and/or other private or federal funding sources of support, and actual or anticipated results. Since 2009, reports have also included awards made under the Small Campus Initiative that makes \$100,000 available on a competitive basis to the five other UMS universities.

According to UMS, they found people did not read the glossy magazine style report any more than the type of “bare bones” reports produced from 1998-2004. It was also was time intensive and costly to produce. In 2011, as part of cost savings initiatives, they went back to producing a much shorter annual report that met the statutory requirements. The report included a very brief summary of leveraged funds, positions supported, and updated appropriation and utilization of funds data. Narratives describing the activities and projects being funded were not included. (2011 Annual Report is attached.)

OPEGA observed that none of the annual reports included a discussion of the annual measurable goals and objectives of the fund, as established by the board, and an assessment of the achievement of those goals and objectives. Statute (10 MRSA §948.1.F(3)) has called for inclusion of that information in the annual report since PL 1999 Chapter 401 became effective.